

# **TotalEnergies SE (TTE) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

July 25, 2024 Thursday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 11047 words

**Byline:** SA Transcripts

**Body**

TotalEnergies SE (TTE)

Q2 2024 Earnings Conference Call

July 25, 2024 8:30 AM ET

Company Participants

Patrick Pouyanné – Chief Executive Officer

Jean-Pierre Sbraire – Chief Financial Officer

Conference Call Participants

Lydia Rainforth – Barclays

Doug Leggate – Wolfe Research

Irene Himona – Bernstein

Biraj Borkhataria – RBC

Martijn Rats – Morgan Stanley

Michele Della Vigna – Goldman Sachs

Lucas Herrmann – BNP Paribas

Alastair Syme – Citigroup

Christopher Kuplent – Bank of America

Matt Lofting – JPMorgan

Henri Patricot – UBS

Paul Cheng – Scotiabank

Bertrand Hodee – Kepler Cheuvreux

Jean-Luc Romain – CIC Market Solutions

Jason Gabelman – TD Cowen

Presentation

Patrick Pouyanné

Good morning or good afternoon, everyone. Patrick Pouyanné speaking. So before Jean-Pierre will go through the second quarter financials, I have thought that midyear would be a good time to check in on the progress that we have been making. I would say the great progress in just the last 10 months since we presented our strategy last September at our Investor Day in New York or I would say, balanced transition strategy, which is incurred on two fundamental pillars: the oil and gas on one side with a perspective of growth and integrated power on the other side, and both pillars are driving the growth for the company.

So during the last first semester and last quarter, beyond the excellent operational performance, which was delivered on our oil and gas pillar, we have sanctioned several major upstream projects. But I would like to remind the [indiscernible] with the financial decisions, some three large FPSOs Kaminho in Angola, Sepia 2 and Atapu 2 on – and both which are world-class oil productivity projects with low technical operating costs and the $20 per barrel sanctioning criteria, Angola is under $30 per barrel breakeven. So these are three major oil projects, but we also have sanctions on the LNG side, two important projects: the Marsa plant in Oman, Marsa LNG, which is a very ultra-low-emissions plant, and the Ubeta gas project in Nigeria, which will supply Nigeria LNG.

So these projects will not only contribute to the objectives to grow our upstream by 2% to 3% per year in the next five years, but they will also boost the underlying free cash flow generation and ultimately shareholder distributions. On the second pillar, integrated power, where we have reached quite a competing ROCE above 10% this quarter and Jean-Pierre will come back on it. We have also made some strong progress towards deploying and completing our integrated power business model by acquiring flexible assets that allows us to extract maximum value from the renewable assets in three key markets in Texas, in the UK, and in Germany. We closed all CCGT deal in Texas and also announced the acquisition of the CCGT in the UK. Both of these markets, we know have all building blocks that define our integrated power model, renewables, flexible assets and, of course, trading and end customers as well in order to deliver clean firm power, which prices at a premium compared to a green intermittent renewable power.

We also acquired flexible assets in Germany through our acquisition of Kyon Energy, a leading battery storage developer. And by the way, we just sanctioned the first 100-megawatt battery storage project developed by Kyon. These complements our leading position in offshore wind in that country as well as the acquisition of Quadra, our renewable energy aggregator, we 9-gigawatt pipeline of irrigation of – to commercialize. So we are clearly, I would say, this first half in a strong execution mode of the strategy. So don't expect any change – we are – and there is, of course, still more to come.

In particular, we have also announced recently that we made some important steps towards the FID of our Suriname Block 58 projects by the end of the year, which is, of course, a key milestone for us, our partners in Suriname. And as a reminder, this is an operated 200,000 barrel per day development with more than 700 million barrels of estimated recoverable oil. We have achieved, as I said, key steps, including the agreements on the field development area with the authorities, but also securing the hull of the FPSO – so to be able to sanction the projects and should be, I would say, end of the third quarter or beginning of the fourth quarter.

I'll wrap up my introduction by just saying that our balanced strategy is so clearly in motion, but we are pushing on all fronts. We are making progress delivering and executing our plan, which will allow us to reach our ambitious targets this year and delivering top-tier performance, but also preparing the future of the company. So we positioned the company to be – to lead the pack, and we are determined to deliver to our shareholders of premium returns. And that's the program that I propose you to show you at our next Investor Day, which this year will be in New York on October 2nd. You put that – can put that date in your calendar. And so I look forward to meeting you there. But in the meantime, Jean-Pierre will give you all the details of the second quarter results, and I will be happy to answer to your question today together with Jean-Pierre.

Jean-Pierre Sbraire

Thank you, Patrick. So let's move to the financials. So the crude market remained supportive in the second quarter with Brent slightly increasing by 2% quarter-to-quarter to average $85 per barrel while the company average LNG price decreased by 3%. Refining margins continue to normalize with our European refining margin market down 37% quarter-to-quarter. In this context, TotalEnergies reported second quarter 2024 adjusted net income of $4.7 billion with the first half 2024 totaling close to $10 billion. The company generated $7.8 billion of cash flow during the second quarter of 2024 and close to $16 billion for the first half of the year. Importantly, profitability remained robust with ROCE, return on capital average capital employed of close to 16% – close to 17% at 16.6%. And we maintained strong CapEx discipline and [indiscernible] 2024 net investment guidance of $17 billion to $18 billion for the year.

But last but not least, we continue to build on our strong track record of attracting – of attractive shareholder distribution with $2 billion buybacks executed during the second quarter and up to $2 billion of buybacks authorized for the first – for the third quarter 2024. Also, the board has maintained the second interim dividend at €0.79 per share, which is nearly a 7% increase year-over-year and is 20% higher compared to pre-COVID levels. First half 2024 shareholder payout stands at 45% of Sepia 2.

Moving to the business segments, starting with hydrocarbons. So production was 2.44 million barrels of oil equivalents per day in the second quarter of 2024, close to the high end of the guidance range. We continue to see good performance from project startups and ramp-ups including Mero 2 in Brazil, Akpo West in Nigeria, Block 10 in Oman, Absheron in Azerbaijan and multiple projects in North. Looking forward, production for the third quarter of 2024 is expected to be stable between 2.4 million and 2.49 million barrels for oil equivalent per day. We would expect to start up on the anchor project in the U.S. Gulf of Mexico in the third quarter.

Exploration and production continues to perform well. We reported adjusted net operating income of $2.7 billion and cash flow of $4.4 billion. The company maintained its cost leadership with upstream OpEx per barrel below $5 per barrel during the second quarter.

Subscribe to Seeking Alpha for more content like this

In integrated LNG business, we continue to increase our structural resiliency by advancing commercialization of LNG through new medium-term brent linked contract with urgent buyers having recently signed two contracts for a total of 1.3 million tons per year.

Turning to the results now, hydrocarbon production for LNG increased 1% quarter-to-quarter which includes entry into the Dorado upstream gas field in the Eagle Ford basin in the United States, and we progress on our objectives to increase upstream integration in the U.S. to further improve resiliency.

LNG sales decreased by 18% quarter-over-quarter, notably due to lower spot purchases in the context of lower LNG demand in Europe.

Integrated LNG adjusted net operating income and cash flow were both $1.2 billion in the second quarter. The results reflect a lower average LNG price and lower sales, as well as the impact of gas trading not really benefiting in the continued, low volatility environment. Energy trading continues to perform well.

Given the evolution of oil and gas prices in the recent months and the lag effect on price formulas, we anticipate that our average LNG selling price should be around $10 per million BTU in the third quarter 2024, which is higher compared to the second quarter.

Moving now to Integrated Power, as mentioned by Patrick, we recently enhanced our asset integration with several flexible capacity additions. Integrated Power once again delivered profitable growth with first half 2024 adjusted net operating income of $1.2 billion, up 36% compared to the first half of 2023 due to activity growth.

First half 2024 cash flow totaled $1.3 billion, which is in line with the annual guidance of more than $2.5 billion. In addition, return on capital employed for the first – for the 12 months ending June 13 increased to above 10%.

In Downstream, Refining & Chemicals reported $640 million of adjusted net operating income and $1.9 billion of cash flow during the second quarter. Results reflect the sharp decrease in global refining margins since the end of the first quarter, which remained impacted by low diesel demand in Europe and market normalization following the disruption in Russian supply.

The company's utilization rates improved to 40 – to 84.5% from 79% in the first quarter of 2024 mainly due to lower plant maintenance, which partially compensated the decrease in refining margins. For the third quarter 2024, we anticipate that the refining utilization rate will benefit from the restart of the Donges refinery in France and will average above 85%.

Marketing & Services benefited from the lower refining margins environment in the second quarter with adjusted – net operating income increasing to $380 million and cash flow increased by 38% sequentially to $660 million.

Subscribe to Seeking Alpha for more content like this

At the company level, we have been, as usual, active in M&A on both sides with $1.9 billion of divestments and $1.6 billion of acquisitions over the first half of 2024.

Our net investment stands at $8.2 billion at midyear, and we confirm our 2024 net investment guidance of $17 billion to $18 billion.

During the second quarter, we reported a $1.2 billion working cap release, and we anticipate that the working cap builds reported during the first quarter will continue to reverse over the coming quarters.

Gearing was stable quarter-to-quarter and improved by nearly 1% year-on-year at 10.2% at the end of the second quarter 2024. As a reminder, we continue to anticipate structural dealing of around 7% to 8%, all else being equal.

During the quarter, TotalEnergies successfully issued senior bonds in the U.S. market, totaling €4.25 billion using conventional formats and privileging low maturities, the average maturity of this influence was indeed 27 years. Indeed, the Board of Directors decided to return flexibility on the format of the bond insurance and to be priority to low maturity.

Lastly, I am pleased to announce that success of the capital increase reserved for employees, earlier this year, employee ownership in the company is now more than 8%. We also have strong support from our shareholders who supported all resolutions submitted to the vote at the recent Annual General Meeting.

I will stop here and let the floor for the Q&A. Thank you.

Question-and-Answer Session

Operator

Thank you. Ladies and gentlemen we will now begin the question-and-answer session. [Operator Instructions] The first question is from Lydia Rainforth of Barclays. Please go ahead.

Lydia Rainforth

Thank you. And good afternoon. Two questions, if I could. The first one, Patrick, I think, you said a 100-year anniversary for Total. And I know that you've kind of been very good at giving shares to the employees and things like that. Would you consider a special dividend for 100 years to celebrate the Total?

And then the second one, actually, if I could just see more macro stuff at the moment, clinics, there is a lot of moving parts to the cash flow towards the end of the year. Can you just walk us through both where we're finding is and where you see that going? And then also on LNG, just where you are signing some of the slopes on the contracts? Thank you.

Jean-Pierre Sbraire

Okay. Good question, Lydia. Maybe I should give to you a special gift of another share to ask a question, but I'm afraid that today, we get – we are not, as we already set up in our cash flow allocation, the privilege is dividend and buyback more than special dividend. We don't consider today, we are in an exceptional environment as the one which we benefited in 2022. So it was exceptional. We are not there.

Subscribe to Seeking Alpha for more content like this

It's a good environment, but not exceptional. So I would say sorry to disappoint you, but I'm afraid we prefer to continue to maintain to increase the dividend year after year and to have a good buyback program. Second, where do we do Refining? Refining, I think it's clear that I think there is a form of – it benefited during the last two years of some imbalances in the market created by the Russian flows, which were distracted from Europe, from the U.S., from the normal flows. We have the feeling that now, in fact, the market has more or less restabilizing in the sort of normalization mode from this perspective, even if – we can observe that the U.S. are more and more chasing against all these great fleet of Russian. So it could have, again, some influence. So that's one part.

The other part is that the demand was not to – was lower this year than the last two years, in fact. So the inventories are not so exceptional in fact. I expect that with the driving season during summertime, generally, there is more demand. So we could see, I would say, a better margin. Today, it's quite low. And in fact, we are – when I say quite low, in fact, it's back to what it was normal before all these exceptional years.

So I think our refiners, now, they have to come back to reality and to deliver good results with lower margins. But again, it's part at the same time, it's true that we benefit from a good oil price, in fact, $84, $85 per barrel, it's good. And so you saw you have – you come back to a traditional integration between, I would say, when the price of all is low, the margins in the refining are lower.

But generally, when it's a case, the marketing is benefiting of it, by the way, we've seen that in our – in the – during the last quarter. So I'm not – I would say, I think we are more going into normalization of refining margins. And when we make our long-term plan, we are more on $35, $40 per ton than $70 or $80 per ton. So maybe because I was in charge of this segment, I know that what is a hard reality from time to time.

But again, this is typically the type of business, which is you need to have your machine, your refinery is running when the margin is good, and then you make the cash in. And then you need to be resilient when the margin is more normal. On the LNG, I would say, again, on the LNG, we negotiate quite a lot of new LNG contracts because all the strategy of the company is to buy Henry Hub and to sell Brent. In fact, so we are in the middle of that. It's difficult to answer to you because there is a lot of discussions around the world.

I would say, it's more commercial secret. So – but again, the transformation of Henry Hub to the Brent is good for the cash flow of the company, including in the market, we can see that by the end of the decade, it will be a softener market. So this is all the strategy of the company.

Lydia Rainforth

Brilliant. Thanks very much.

Operator

The next question is from Doug Leggate of Wolfe Research. Please go ahead.

Doug Leggate

Thank you. Good morning and good afternoon, everyone. Thanks for having me on. Patrick and Jean-Pierre, I wonder if I could ask you about your Suriname progress. My understanding is that when you laid out the strategy last year, Suriname was – did not have a meaningful contribution to your 2028 cash flow. But now you have an SPM fast-forward hull. And obviously, things look like they're moving a little quicker. It seems to me that Suriname could be a meaningful step-up in your cash flow in 2028. Full calendar year at current oil price is probably around $4 billion. Can you give us some color as to what you think the progress is?

Jean-Pierre Sbraire

That's true. But in fact, we have decided, as I said last year, that Suriname, we try to execute it in a quick mode, I would say, moving from the end of the appraisal by September last year to the FID. My objective is one year for appraisals with FID. All the teams are being mobilized. By the way we are using innovative approach, including using the design of a good operator, which is developing projects next to Suriname, which first, they have a good design.

So trying to build on this FPSO, in fact, taking the design, which has been designed of Guyana, in fact, to apply it, and it's quite efficient. So we move forward quickly. And so that means that the first sort of Suriname is targeted by, I would say, somewhere in mid-2028 beginning Q1, beginning 2028. So it could be quite significant. To be clear, cash flow from Suriname, as you know, will be big because we have in fact, financing almost a full of it.

So we'll benefit from the cash flows in a very large way. So as the contribution of Suriname, not only to 2028, but 2029, 2030, 2031, 2032 will be important. That's why I'm insisting. By the way, I can tell you that in September, we will extend our guidance up to 2030 because with the rich portfolio we have, we can extend it. And Suriname, of course, will be part of the new – the good color will give to our perspective by end – by 2030.

Subscribe to Seeking Alpha for more content like this

Doug Leggate

That is very helpful. Can I ask a quick follow-up on a separate topic in the U.S. After your Lewis Energy acquisition, are you now comfortable that you have enough hedged gas exposure for your LNG? Or do you still intend to do further acquisitions in Lower 48?

Jean-Pierre Sbraire

No, we don't have enough. We are clear. We can make the math. We will take something like almost – we have 10 million tons, we have 5 million tons in Rio Grande, so we need to increase. And by the way, I can tell you that we are working on another deal. So it will be step by self deal. It's not a big one, but we are working on another one.

And we should have news as well for you, but we'll give more color to you by September as well. I think an important topic on which for me is important is to show you how we, in fact, all this LNG position on one part, on the upstream, but on the other side, on the downstream will be resilient and whatever the unrepriced environment will be, I think, is very important to demonstrate it, and we are acting on it. And on the team, there will be more to come for sure.

Doug Leggate

Thank you so much, guys.

Operator

The next question is from Irene Himona of Bernstein. Please go ahead.

Irene Himona

Thank you. Good afternoon. My first question is on marketing. In the second quarter, nobody declined about 16% year-on-year for a 2% lower sales volume. How should we think around the impact of your disposal to co-start versus underlying performance? So what happened if we exclude the sold assets?

And my second question, Patrick, French politics has been quite volatile recently. And sovereign states can do a lot of things, impose windfall taxes, even golden shares. So I wanted to ask, is there something in particular there that concerns you in terms of put a potential action by the French state that might be against the company's interest? Thank you.

Patrick Pouyanné

First question is quite easy. In fact, it was more or less $20 million per month. So in the quarter, it's $60 million, the impact of Couche-Tard. The assets in Germany and Netherlands and half of Belgium, so you can make the math. And in fact, we manage in terms of cash flow more or less to – we are okay with cash flow or it's a net result, $20 million was a – synergies, sorry, not cash flow, tax result, so $20 million per month.

So you can find that you are it would be reduced to 2% to 3%. So it's in line, in fact. So globally, the marketing is, I would say, a very – performance equivalent to the one of last year if you deduct this Couche-Tard impact, okay? First point. And second one, honestly, the French politics. I think, first, I would say that TotalEnergies is more stable, which is good or it's a stable company. No, honestly, I think there is a lot of noise around all that. On the golden share, by the way, has to be very clear, on it, there was a judgment, which was in 2002 by the European Court of Justice, which has obliged to the French government, which previously had the golden share in TotalEnergies equity to cancel it because it was against a fundamental principle of remove of capital within the European Union. So it has been already judged.

So I know that some politicians are speaking to thinking against about it. And by the way, with the present law in France, just to clarify with you, it would require at least the French state to invest 5% of shares in TotalEnergies. So I understand that they have more – better use of their money than investing billions in the company. So that's politics. But again, this is not a point. I think as I told you before, already, you could see IDs like the one in the U.S., by the way, which is taxation on the buyback. The French politicians have all read, but something is happening there.

So sometimes it's a little difficult to argue for us again even if we have done it. But again, we will engage with wherever the new government is. And that's, I think, again, I don't think you should consider it will fundamentally affect the interest of TotalEnergies.

Irene Himona

Thank you, Patrick.

Operator

The next question is from Biraj Borkhataria of RBC. Please go ahead.

Biraj Borkhataria

Hi, thanks for taking my questions. My first one was on the deal you did with OMB in Malaysia. I know that you listed that in the upstream bullets rather than integrated gas. But in the press release, you mentioned the deal will be an anchor for future growth in the country. Just wondering if there's any potential here to integrate yourselves into the LNG facility and whether that's being discussed. And if not, could you just talk a bit about your growth plans there and the strategic rationale for that deal, if you can't integrate into LNG.

Subscribe to Seeking Alpha for more content like this

And then the second question is just again on projects and on LNG. So Mozambique, there was an article recently around potential cost escalations. Could you just give us an update on where we are an expected budget and what the next steps are from here? Thank you.

Patrick Pouyanné

Yes. On Malaysia, no, I think maybe it will be – fundamentally, the gas revenues from the license in Malaysia is LNG netback, just to be clear. So for me, it's integrated to the LNG value chain just to be clear, even if we don't have – so it's a way that the price – gas price is settled. So first clarification.

So the idea, of course, is to continue beyond it to have access to – and we are already in discussions with some other actors, players, including, by the way, PETRONAS to beyond and they just started, by the way, the Jerun gas field, which just started this week, last week. So it's quite a large fine – it's producing 600 million stuff per day, I think. So we'll have a nice share of it.

And so beyond it, there is more opportunities to develop. And so we have some plans. And of course, at the end, the more we can link that to the LNG world and to LNG pricing. This is the objective of the company. So we'll work on it. On the Mozambique, I can tell you that everything has been settled with the contractors. So we are clear. We know where we are.

In fact, it was more mature to be honest of the cost of the, I would say, frozen period, which was to be absorbed and discussed because since 2020 to 2024, we have frozen some words. We have some equipments which were, I would say, kept in different locations. So all that has been discussed already at all with them. And so we are on the way to move forward. And we will – as soon as we can update you, we will do it. But the progress has been done in many direction, including on security.

Now we try to regroup all the financial finances around the project. So as you know as well, there are some presidential elections in Mozambique coming soon. And so of course, for us, it's important to be the confirmation that the new President will follow the same policy regarding these large projects. And so that's where we are. So say by end of the year, we should clarify or we should be able to move forward.

Biraj Borkhataria

Okay. Thank you.

Operator

The next question is from Martijn Rats of Morgan Stanley. Please go ahead.

Martijn Rats

Yes. Hi, hello. I have two, if I may. I was – my attention was drawn to the comments in the outlook statement where you talked about European gas prices in the range of $8 to $10 per MMBtu for the third quarter. And that struck me as somewhat of an unusual comment because I don't know Total to call that often on near-term commodity prices. So from that perspective, it stood out, but it also took out because it seems quite low. TTF is a little bit more than $10 per MMBtu at the moment. So I was wondering if you could elaborate a bit on that expectation and broadly where it comes from and the drivers behind it?

And then the second thing I wanted to ask is on the previous earnings call. We talked a lot, of course, about the potential to either move the listing to the U.S. or maybe not for the full headquarters, but at least the – yes, to move the main listing to the U.S. in a quarter has passed, and I was wondering if you have an update on those thoughts.

Patrick Pouyanné

Okay. Sorry to surprise you. Sometimes you tell me that we are a growing company. So today, we try to make it. Honestly, there is no – we've seen we made a statement. Beginning of the year, at $8, we moved up to $10, $10.5. So to give you a range of $8 to $10 in summer time, there is nothing extraordinary because it's not the best season.

The third quarter is not the peak of the demand generally. And so as you know, the inventories, storages in Europe are quite well full. We don't anticipate a big rebound unless there is an event. So that's, I think, giving you this guidance is more reflecting what happens since the beginning of the year. So it's a way to tell you.

Subscribe to Seeking Alpha for more content like this

But again, when you say it's low $8, it's quite high compared to what we were experiencing before 2021. And it was more – we had years at around $4 to $6 per million BTU. So $8 for European gas price, even today, it's $10.3 yesterday evening is a good price for – not only for us, including for all Norwegian operations and UK operations, I would say, it's good for – it's okay. It's lower than what we had in '22 and '23, but we've made no miracle on that, but still there has been a landing. And unless the weather will come against call next winter, we don't anticipate any point.

Having said that, there were the disruptions coming from other parts of the world, because the main driver today will be, if there is any tension as the LNG supply, because the plant could have a problem somewhere in the world, when this market is very volatile because we don't have much margins between the supply and the demand on the LNG.

So sorry to have surprised you, Martijn. On the U.S. listing, no. I mean it's not – I clarified that in the French newspaper, maybe it was in French, so we should translate it and distribute it to everybody, which I will ask Renaud and his team to do because we clarify what we want to do. What we want to do is fundamentally to transform the ADRs in shares, in ordinary shares. That's all.

And that means at the end and we want these shares to be cross listed, I would say, if you want, between Paris and New York. That's fundamentally what I'd like to do. There is no – nothing else. So transforming the ADRs in shares, the ADRs we made the test to – we had questions with a quiz or questions to almost 40 long-term investors in the U.S.

They see some positive, nothing negative because some investors do not like complexity of the ADRs in terms of back office, in terms of managing it. Some investors could prefer to invest directly on the New York market and not going to the European market, Paris or London or Brussels, so that we do. So we are more in a technical – we are in a technical move. We progress, just to tell you, we progress positively until now, and Jean-Pierre and his team will work on it. We will update you probably end of September.

But technically, there is some technical matters between the different depository, in fact, firms between Europe or – Europe on one side, the TCC on the other side. And so we made progress, and we'll be able to have a scheme. So it's fundamentally transforming the ADRs in shares. And so having – giving more liquidity to the shares, which the shares could be, in fact, acquired over in Paris or on the New York market. That's what we want to do. It will add the liquidity. And so we hope it will help attracting more U.S. investors. And as you know, today, we have a larger – a stronger flow of U.S. buyers than on the European side. That's what we want to do.

Martijn Rats

Wonderful. That's crystal clear.

Operator

The next question is from Michele Della Vigna of Goldman Sachs. Please go ahead.

Michele Della Vigna

Thank you very much for the time. I've seen that you've been very active in adding more low-cost LNG supply to your portfolio in the last few months with Roubaix, with Marsa LNG. I'm wondering you must be marketing these volumes to customers at the moment. How do you find the demand appetite for more LNG? And are you comfortable to add more spot volumes to your portfolio, especially if the market starts to become more supplied in '26, '27? Thank you.

Patrick Pouyanné

Yes. Good question. Thank you, Michele. Clearly, we have been successful in the last month, and I answered to a previous question. Our strategy is to be able, in fact, to transform some gas – I would say, gas volumes into brand volumes. And so we are active on the Asian markets. We have already announced 2 million tons of new LNG contracts since the beginning of the year to different, and there will be more to come. So you will be – you will see – I can tell you more deals to be announced in the next months. We are quite active.

As I said to – as I answered, look, we have more or less 10 million tons today of U.S. LNG, which is linked to Henry Hub. We sell part of it on the Henry Hub formula, and we want the rest to be installed on the brand formula, in fact. And the brand formula and so the answer to infrastructure, there is an appetite to the all mission buyers and still at a good percentage. We don't, I would say, discount or LNG.Why? Because I think the lesson of the Asian buyers is that – they have been afraid about what happened in 2022, 2023. So even if I could anticipate that there would be a softening in the market by 2027, 2030, they think for them, it's better to hedge part of their own, I would say, purchase linked to the brand.

Subscribe to Seeking Alpha for more content like this

In fact, I think today, there is more confidence in the buyers side, on the brand and the stability of the oil market than on the LNG, GKA index, which is, by the way, don't have the same depth by the TTF. So I think this is why you have some appetite in different countries. There are more countries buying LNG. In fact, it's not only China, Japan and Korea, Taiwan, Vietnam, India, India is – has borne appetite.

So adding more spot, we have added already. We have added with Rio Grande. We took 5 million tons. Marsa is smaller. It's 1 million tons. So – but this is the one where we want also to develop a local barging, I would say, market within the Gulf with a specific market. And so yes, we are comfortable. But I think I will give you – I will tell you, Michele, what the objective we have in end of September is to show you exactly what you said, how do we manage is potentially softening of the market from 27% to 2030, what is remaining exposure from TotalEnergies. And you will realize that downstream, in fact, fundamentally, we will transform and we are transforming Henry Hub brand. And I think this is good for our shareholders and for the future cash flows of the company.

Michele Della Vigna

Very clear. Thank you.

Operator

The next question is from Lucas Herrmann of BNP Paribas. Please go ahead.

Lucas Herrmann

Thanks very much for your time. Two, if I might. One, the first is just to JP, the hybrids, you've redeemed a portion again this quarter. Can you just remind us what the redemption possibilities are going forward what the time frames are? And Patrick, apologies, but a general question for you, just on your own thoughts on China and Chinese oil demand development to look out over the next few years? I guess I've been – it's been a fascinating to see the extent to which gasoline demand is perhaps come to come under pressure from EV. You've obviously had a fair amount of switching diesel into gas, LNG trucks, et cetera, et cetera, and demand increasingly feels. So it's coming from the chemical industry. And perhaps negating crude. But just – I mean, just your own thoughts and insights into how you see Chinese oil demand developing next few years? Thank you.

Jean-Pierre Sbraire

Yes. So concerning BI, you're right. So we decided not to renew €1.5 billion in the second quarter because we use the flexibility offered by the rating agencies, if you can demonstrate that without renewing your rating, your credit is not affected, so you can use this flexibility. So we see – because we have an over €2.5 billion next year as in our agri portfolio. So we have to discuss with the rating agencies to see what we can do and so if we can, again, continue to lower the agri portfolio.

Lucas Herrmann

Thank you.

Patrick Pouyanné

On the China North, having insights on the forecast of the Chinese market, it's not so easy for when you are out. I would say I think we should not exaggerate as well what happens. I think my view is that the whole market for the time being, oil demand globally, continue to be driven by China, even if India is part also is a growing country. I would take the assumption of 0.81% per year is a good assumption until we will see a real reverse. Does it affect China? I think we are today a little on the western side over, I would say, there's a little of China bashing, I would say, to try to say that the economy in China is slowing down.

My view is that it's continuing to be quite active. And it's true that you have there some more of the EV sales are impressive. But I was recently discussing with the CEO of the number five car manufacturer company. And when I asked his figures, it was still of 20%, 30%, is not at 70%. And in fact, it's a little like in Europe. There are EVs, also hybrid cars. And so – and the hybrid cars are also because the customers, in fact, are looking to the same issues wherever they are in China or in Europe. In fact, they want to have a, I would say, a reliable car for most of the time. But that's important to keep in mind. So yes, there is a trend. That's true.

We see some – we see also LNG becoming for trucks, a new market. But fundamentally, I think for me, it will not affect quickly the oil market. So keeping 1% of demand for the year, I think, is reasonable, which is where we are more or less, that's what we think, what we take into account.

Lucas Herrmann

Okay. Thanks very much for the comments.

Operator

The next question is from Alastair Syme of Citigroup. Please go ahead.

Alastair Syme

Thank you. Patrick, just one question. I just wanted to get your sense on the competitiveness of opportunities in renewables. I know there was another German lease bid auction recently that you are one of the two bidders or winning bidders, but it was quite strange. I think your German partner probably pulled out because they thought the auction had become too expensive. And I get at the market. The markets always have a difference sort of thinking. But can you give us a sense of where that difference lies?

Patrick Pouyanné

Okay. If we made the bid, but if you think it's competitive otherwise, we don't do it, first comment. Second comment, in fact, when you look and you will understand what we've done in a few weeks, we are trying to just I think one of my colleague in Germany has made it public in an interview. In fact, fundamentally, we think that this block that we have acquired is just this license. It's just next to the one we acquired in the first round.

So we want to make synergies of development in order to be more efficient. And so that's the objective. And this could go, by the way, the fact that the structure all the properties we have in offshore wind in Germany. So you will see the story coming later. But again, what we're seeing fundamentally. And the German partner, by the way, is a nice partner that we have announced yesterday that we went with them in Netherlands, so probably Netherlands are good in Germany.

Subscribe to Seeking Alpha for more content like this

In fact, he has a different view because he has another past portfolio in Germany. So we are building the portfolio, not exactly the same approach. But if we do it, it's because – and it's little linked to the German power market in fact. Because in Germany, German government has decided a policy, we've no nuclear exiting coal. So it's fundamentally renewable and gas market. So the gas, the power price will be driven by the gas, in fact.

And when you look to the perspective of the gas price in Europe, you can be optimistic on the electricity price in Germany. So that's part of the link that we want to do. And so that's why we are building today a full integrated portfolio in Germany. It's not only the offshore wind. And so you should never – and I know, Alastair, it's difficult for me to convince you. But you will see and why we are more profitable than others. You don't – you should not look to the renewable opportunity only. It doesn't work like that.

A green intermittent electron has no value or little value. What is good is to have a clean firm power for customers. That's what we do in Germany, yes, we need some renewable sources to have the clean part but we need to combine them with flexible assets and flexible assets are batteries.

TotalEnergies should participate to have – we'll find a way to have access to gas power plants in Germany. Otherwise, my speech will not be consistent. And so I can announce you the next steps of what we want to develop, that's why also we bought this aggregator of renewables to give flexibility in trading the system.

So the fundamental business model we have is not renewable. Renewable profitability, it is what it is, and you know it. But where you make money, it's when you combine these green electrons with the flexible asset, gas plants and you deliver to the customer of clean firm power. Then you increase a lot of value. And the renewable – so do you allocate this profit, this value to the renewables or to the gas plants or to the batteries?

I don't hear, at the end this is the integrated model. And this is what we delivered to you quarter after quarter and we'll increase it. So that's the business plan. So it's not a matter only of opportunity of renewable. It's a matter of integration. And that's why today we have a return on capital employed of about 10%. The renewable assets alone will not be there. I have made it, but it's not what we are looking to.

Alastair Syme

Okay. I look forward to October in the meantime enjoy the Olympics.

Patrick Pouyanné

So – and you need to listen to me a little. Okay.

Operator

The next question is from Christopher Kuplent of Bank of America. Please go ahead.

Christopher Kuplent

Thank you very much. Let's see whether I've listened enough, Patrick. Can I come back to the topic of green hydrogen and that deal that you've just announced with RWE? Can you comment a little bit about the competitiveness of the industry? You are instrumental in trying to create a clean hydrogen market. And it seems that deal in the Netherlands suggests you feel you're better off creating the value chain yourself rather than buying it at currently available prices. So I'd be interested to see what you feel you can give to us here.

And if I may go back to the U.S. and ask you a little bit around the idea of M&A and how attractive or not you feel your current acquisition currency is if it's not cash in terms of being able to do deals, is that one element behind, let's say, improving the currency that you have in New York.

And if I can sneak in a third question, I would expect net-debt to fall as the net working capital position drops into year-end. How much room do you give yourself to surprise us what more than 40% as CFO so means in terms of shareholder distributions? Thank you.

Subscribe to Seeking Alpha for more content like this

Patrick Pouyanné

On the last question, I think you have the answer in the speech of Jean-Pierre. Jean-Pierre told you that we are confident we could come back to a gearing of 7%, 8%. So – but it's part of the working capital build during the first quarter, which will be released along the year, more than 40%, more than 40%, I consume more than 40%. That's – I think you have the figure for this quarter, what is it 45%, so more than 40%, 45% today. So it's – the guidance will not be changed. But the delivery will be real. You will see it.

First question, Jean. Again, no, I think you are – it's more complex than that. When you – we have different ways to provide green hydrogen to refineries, which, again, because of the RFNBO [ph] regulation in Europe, fits an economic score to make an added value because you avoid the ETS on one side and you create an additional new product and these new products according to Visa FNBO regulation in Europe has added value.

The question is how much do you pay for the hydrogen, obviously, green hydrogen. In fact, we are looking to both ways, either we – there are different ways, by the way and normally, in France, we have made the tolling of green electrons, which was a tolling agreement with our liquid we toll green electrons. We don't invest in the electrolyzer. They do there on it, and we toll it, so we have a tolling fee. And we will get to green hydrogen outside for out of the electrolyzer. That's the tolling one.

We could have, as we explained, by the way, yesterday, we have begun just made the deal with RWE to share, to invest offshore wind and assets and to get 50% of the electrons in order to transform them into electrolyzers. It could be – it will be in local electrolyzer, either footholding or we are looking to maybe part of it could be invested by ourselves in order to compare the difference because it's an infant industry. So we want to invest into compare the different ways between tolling, investing, and that's where these electrons will go. And when we have third rule which is to just to purchase green electrons from abroad.

And then it's a question purely of competition, market and being the first mover, we announced a deal with our products being the first mover from this perspective, I think, give us access to good price. And so when one day, two day, it's premature because all these discussions are moving on. But when we compare the different boots and again, it's more or less equivalent. Of course, the question of when you import, it's a question of competitiveness of your supplier. And they will take more risk probably because we are off taking. But that's part of the discussion we have with some suppliers.

So – but I can tell you, at the end, all the deals we will sign will allow us to create value, not only to avoid the ETS. But on the top of it, to capture part of the added value of the RFNBO products, which are the results of the European regulations.

And again, this match well with this RFNBO framework, which is a sort of a regulated economy, which creates a bubble where you can develop some green hydrogen. I don't tell you from my demonstration that green electron is cheap, but you can create an economic framework and some value for refineries and at least reducing the emissions and avoiding to pay these ETS. That's where we think about it.

No, U.S. M&A, you are too smart, no. We just want to – we want to improve the value of the shares for you – so it's obviously not to make M&A directly now that's not the point. Again, as you know, we have a large and rich portfolio of projects so we would like to make more M&A with shares. So it's not the main driver. The main driver is fundamentally, as I answered to read to transfer the ADAs and shares because it could be attractive to some U.S. investors to invest directly in New York, in on shares. And it's just giving more liquidity. And if it's more attractive, could we could think that it could help not I think, to fill the famous gap, but part of it.

So that's contribution to, I would say, the TSR of the company, which is already one of the best of the – if not the best is the number one or number two or number one, I think since December 2023, December 2024. So it's improving the TSR of TotalEnergies to be more attractive. That's the objective fundamentally of this move.

Christopher Kuplent

Thanks very much, Patrick. Thank you.

Operator

The next question is from Matt Lofting of JPMorgan. Please go ahead.

Matt Lofting

Hi, thanks for taking the questions. Two please, if I could. First, just coming back to the longer-term growth proposition of the company. I think you highlighted earlier some of the strides that you've made during the first half of the year in advancing projects and strategic execution. If you think about in the context of oil and gas growth, 2% – 2% to 3% CAGR to 2028 or the 4% energy production growth to 2030. How significant is the derisking of those objectives being through the last sort of six months, nine months, and what sort of key projects apart from Suriname outstanding for the second half of the year?

Subscribe to Seeking Alpha for more content like this

And then secondly, I wanted to just come back on gas and LNG. I think in the press release this morning, you called out sort of strength around sort of China and India from a demand perspective? To what degree does TotalEnergies see that strength is seasonal versus structural? Thank you.

Patrick Pouyanné

Okay. On the first one, thank you for the question first. So I think, again, we set this objective for the next five years in September 2023, 2% to 3% renew, and we – we were very clear that the number of projects we had to sanction. And I think we've done a lot. I think most of the work has been done during the first six months. It's important because it's – for us, it's clear, but it's a way to capture quickly, of course, and not to see more inflation coming tomorrow. So it was a key priority. So we have the two projects in Brazil. The one in Angola. Suriname will come soon again.

So I would say – and you had also a part [indiscernible] I could add that on Iraq, we are also progressing, but the other one on which we progress quickly to go to the first phase of Iraq. So that's for the all [ph] on the LNG, we postponed P&G, Papua LNG, because it was too expensive, so not be volume driven. But we had the opportunity to sanction Marsa LNG to rebound. But we just joined the Ruwais LNG projects for 10%. So all that being less. So we have multiple options in the portfolio. And so I'm very confident to deliver this cash flow. But I'm even more confident in July 2024 and September 2023 because most of the work of sanction has been done. And so it's progressing.

And again, I think in September, in October, October 2, I said September, it's October 2 in New York. Of course, it will be part of the presentation to update you on the progress to this objective of 2% to 3% and even again to speak to you about up to 2030, because we have a portfolio which is rich and so we can – we are confident about the growth we can deliver by this timeline. So that's the point.

So Suriname is a big one. Honestly, I think we are – is the main one which will come in 2024, I think, in May. And Iraq Phase 1 going to 110,000 barrels per day, which progress – which is progressing very quickly as well. And by the way, very well. So the teams are doing an excellent job in Iraq.

On the LNG, India, China strength, it is – no, I think you see something more fundamental in India. Investment, you see an industry demand in India, in fact, coming. Indian government has really, I would say, invested in some gas infrastructure around the country. And you have more and more industries, not only refineries but others who are going to come to LNG into gas. And I think it's a trend even surprisingly at higher price than before 2021. In 2021, I think I answered questions, tell you that in India, it's difficult to sell beyond $6, $7 per million Btu. In fact, we continue to develop the business it's $9, $10, per million Btu.

So I think there is a fundamental structural demand coming from India, and we are convinced that the Indian market will take the relay I would say, for the traditional, Korea, Japan, and even China. On China, probably it's more seasonal today. I think is because there are already a lot of infrastructure. China is moving very quickly on these renewables continue to increase its coal production.

And again, the gas is more driven by transportation like it was mentioned by UCaaS or by industries. So the gas demand, LNG demand in China is not really driven by power today because the power is mainly coal and renewables. So that's – but there are some decisions. So Chinese recently have again – spoke again about the equivalent of ETS CO2 market. But today, it's quite small and limited, but they want to expand it to all the industries.

So this type of drivers could really have an impact. So we see more of the Chinese market growing thanks to LNG industry and transportation more than power, in fact, on the LNG. So honestly, I think today, we have 400 million ton market. It will become 600 million ton market. But this 50% of demand increase will be absorbed quickly in four, five years. I think part of it today will already being absorbed in Southeast Asia, if we are not constrained by supply, in fact.

Today, we are – because I remind you that we took 50 million ton from Asia to Europe, and since 2022, we did not increase the LNG production. It's quite stable. So this would be easy to do. So this growth will come, and we have also many more countries open to LNG this year is Vietnam as a terminal, Philippines we have a terminal. So in fact, in Southeast Asia, most of the countries will have – be able to receive LNG. So then – and if you can think that you will have a good supply, so price will soften, it would even incentivize the demand and accelerate the demand by the end of this decade. So I think – and it's not just seasonal obviously for sure.

Subscribe to Seeking Alpha for more content like this

Matt Lofting

Super. Thanks very much.

Operator

The next question is from Henri Patricot of UBS. Please go ahead.

Henri Patricot

Yes. I want to thank you for the update. Two questions, please. Maybe the first one, just coming back on cost. I was wondering if you can comment on the inflationary pressure that you're seeing, you mentioned P&G, LNG, where we saw cost and then postponed the project that's quite specific? Or are you seeing [indiscernible] inflationary pressure. And then secondly, just a quick question on the CapEx guidance for the year? And where should you expect the cash outflows related to [ph] acquisitions to be offset by cash inflows from disposals this year? Thank you.

Patrick Pouyanné

And the first question, I know has nothing to add, there is an inflation in our industry versus a low point where we were in 2020. Today, I would say we are 20% higher in most of the costs. But at 20%, we can manage it, and that's why we can sanction our projects like the ones we have done, even if you can also take some innovative measures like making [indiscernible] in order to manage these costs for the future.

Having said that Papua LNG probably a form of specificity because it's isolated projects I would say remote areas not many project by part. So probably as we said this before, we consulted additional western I would say suppliers. They are not really interested. There are some limited visuals. They think they could deliver more margins for them to make the project in the U.S. and one in Papua. So what we are doing is looking to – we have decided to go to a larger, I would say, supply over suppliers, in particular, Asian ones, India and Chinese.

So we could have – I think we should be able to come back to something more CapEx, which would be reasonable in this environment. But again, by the way, another point is that it was an inflation, but today, it's more stabilizing. In fact, because, for example, in the rig market, in the drilling market, you begin the drilling contractors because we are facing also some supply chain equipment program. So it does not impact – there is still some rigs which are not used in fact. So it's – so in fact, we don't have – they don't have the full value chain, the full supply chain ready to execute also they would like to do. So yes, there is inflation, but we manage it. And we'll come back on that topic as well in the beginning of October.

The second one, yes, we already gave a guidance of $17 billion, $18 billion of net CapEx. And this will be, again, as Jean-Pierre told you, we reiterate this guidance. And I would say last year, for the five years business plan, we gave you $16 billion, $18 billion, I remember in mind well. And I would be surprised that we will not confirm $16 billion, $18 billion on October 2.

Henri Patricot

Okay. And CapEx point you should be also within that range.

Patrick Pouyanné

Okay.

Henri Patricot

Thank you.

Operator

The next question is from Paul Cheng of Scotiabank. Please go ahead.

Paul Cheng

Hi. Good morning. Two questions, please.

I think this – the first one is for Jean-Pierre. In your press release, you said the integrated power result was impacted by some seasonality like in Europe, Chesapeake seasonal demand. Can you help us to understand that how big is that impact? And maybe in general that what type of other visible seasonal pattern we should expect in the integrated power business for you? Second question, I think this is for Patrick. Any update for business? Thank you.

Jean-Pierre Sbraire

The main driver behind my comment is in relation with the CCGT that are less used in summer for obvious reasons compared to winter.

Paul Cheng

Can you quantify how big is that impact? And also other than that is there any other seasonal pattern in the other quarters that we should be aware?

Jean-Pierre Sbraire

No. We are young in the integrated power. So we don't have enough long history of results to answer precisely to your question. So we just – we have to explain why 500 is a little lower than the previous quarter. And when we look to the figures, one of the main explanation was just that the gas – the gas park or plant level of use in Europe was very low less than 10% is compared to something around 40%. So that's one explanation with – and the first explanation in this one.

Patrick Pouyanné

Okay. Namibia, I mean, our business just to tell we have, again, finished the appraisal of Venus. So now we have some reserves. We are now working on the development scheme. As you know, we have been quite clear with you is positive. We have a lot of oil, but there is also from gas. So the question will be can we find a way to develop this oil pool managing the gas and, I would say, reinjection in an economic way because, of course, all that at the end needs to fit with all the criteria of breakeven less than $30 per barrel or of course, less than $20.

Subscribe to Seeking Alpha for more content like this

Our engineers are working on it. It's a little more complex to develop business than hard value in Suriname to be clear, because there is the gas quantity to manage is larger. But I think we have a key – it's a clear objective to the teams to deliver some value. And so we'll update you today. The agenda is again by end of '20 – we are in mid-2024 by end of 2025 to have clarity probably before to say what where we are with this development. So we are working on it.

Paul Cheng

Patrick, that we know there's a lot of gas, as you mentioned. But other than that is the geological structure is complex or that is more straightforward, let's say contained to certain name or Diana [ph]?

Patrick Pouyanné

On Venus, I would say, I know the comments of one of my peers will say there is a lot of heterogeneity, difficult to find oil pool. We have the oil pool. Of course, we have a core the pool, which is a better quality, like always in all the fields that I know sentiments industry. And then you have the France of the pool, which are degraded quality, but it's always like that. But I think we have the pool.

The question is more, again, the capacity management of the – so we have a pool of oil, which is big enough to make a development. The question is to manage with acceptable costs, all the gas, which will work with the oil and to be able to reinject it in the company in good conditions, knowing that we are, I remind you about few thousand 3,000-meter water depth.

So it's not – it's part of the challenge. Even defer it is the more expensive it will be. So that's a link. So that's more now today for me, it's a question of commercial finding a way to make it profitable as for our criteria. And – but I think I'm always optimistic, but I'm optimistic. So we have the right oil pool.

Paul Cheng

Very good. Thank you.

Operator

The next question is from Bertrand Hodee – sorry, Hodee of Kepler Cheuvreux. Please go ahead.

Bertrand Hodee

Thanks for taking my question. Two, if I may. First, on Suriname. Can you confirm and I just suppose your earlier comment points to an FID for 2024? But can you – do you believe you can achieve still the $9 billion budget you've earlier penciled last year?

And the second question is on LNG. You've signed a 2 million ton long-term contracts to Asian customers but you have taken a lot of offtake commitment in the last, let's say, 15 months including real and of 5 billion tons QAC, QFS [ph]. And now was do you have a target in terms of volumes you would like to secure on a long-term basis for Asian customers?

Jean-Pierre Sbraire

On the Suriname parts we are in the process to make the FID. So I don't have today the figure. What I can tell you is at the end is this development or the sanction because the cost CapEx or OpEx will be lower than $20 per barrel. But a strict criteria we are committed to it, so we'll meet that target. This is – and if I say you that is because I'm optimistic that we will achieve. So that's a point.

Secondly, on the LNG, okay, I described what we want to do. Fundamentally, we have some Henry Hub exposure. Part of it, we can resell Henry Hub. In particular, we have a good exposure. We have a good customer in South America, and they buy on Henry Hub basis. So this part Henry Hub to Henry Hub is fine for me. And then the rest of the Henry Hub, the objective is to be able to secure as much as we can on a brand basis and a medium, long term medium, long-term basis we want to transform and we have in brand.

Subscribe to Seeking Alpha for more content like this

So if we reach 100% perfect, if we reach 80%, and 88% is a minimum we want to reach on this conversion, just to be clear. Because as we analyze the market to soften by the end of the decade, we want to protect the company, it's not necessary a 15, 20 years. As you know, it's a question we could have also of five, seven years contract, which will help us to swallow a software market and then to rebound. So that's more the FID fundamentally. And it's true that what is behind is that my view and our view is that the oil market because of OpEx position is probably more stable than the gas market from this perspective on medium and long term. So we are more bullish on the oil and on the brand. And I would say, on some volatility we put have in this LNG market.

Bertrand Hodee

Thank you.

Jean-Pierre Sbraire

So we like the odd.

Operator

The next question is from Jean-Luc Romain of CIC Market Solutions. Please go ahead.

Jean-Luc Romain

Thank you for taking my question. You have built an interesting value chain in integrated power in Texas. And in the last quarter, there have been very big volatility [ph] on some very warm days. I was wondering how you can capture those. And the second question was you explained as your utilization rate for the European natural gas power plants was very low? Or was it in the U.S.

Patrick Pouyanné

No, I think on the contrary, we know that the gas-fired power plant that we have acquired. Most of values is they need the climatization. It's the eating. It's IT wave. And the IT wave today in the U.S. has been very strong in the last month. And so I think the results of the first quarter will be even better. So I can tell you, these gas plants are used at a very high rate today. So it was an excellent acquisitions. And by the way, they are used as they are driving the price at a point where the price of electricity is quite good. So that's really, I think, the demonstration.

And of course, we have some solar plants, we have some batteries and also we can benefit with the batteries, the integration. So you will see the positive impact of this, I would say, flexible assets, I think, even more in the third quarter because the second quarter, I think we closed the deal. We don't have a full quarter yet. And by the way, the IT wave did not come in April, but a little later in June, July, et cetera. So that's clear, but it was clearing the model that when we study this acquisition, but summertime was the best part of the year. We, by the way, it's compared to the winter time in Europe, there is a sort of a counter seasonal effect between the Texas and Europe from this gas fire power plant point of view.

Jean-Luc Romain

Thank you very much.

Operator

The last question is from Jason Gabelman of TD Cowen. Please go ahead.

Jason Gabelman

Hey, thanks for squeezing me in. I wanted to ask two questions. The first one is on the gearing level. It was stable quarter-over-quarter. And I know you discussed an expectation it's going to decline. But I'm wondering if it stays at this level for longer? Or is there a level that it increases to that impacts the decisions around the distributions that you're paying out, specifically the buyback pace.

And then my other question is just on the quarter, we saw E&P OpEx move a few hundred million dollars higher quarter-over-quarter despite production being relatively flat. I was wondering what drove that, if that's structural or if that should reverse next quarter? Thanks.

Patrick Pouyanné

The OpEx of E&P, we are lower than $5 per barrel. And I think I will come back to you, I think. On the gearing, no monetary 10%, 8%, it has no impact on the decision on the buyback to be clear. So 10% gearing or 8% gearing. It's not making a difference. The 8% is more in, again, we had working capital build, which was quite big. We know there are some fiscal and other matters behind it. So we know that along the year, it will come back. So that's why Jean-Pierre do 8%. Last year, it was 6%, but the 5%, 6% was really exceptional from a very big working capital release, which is very exceptional. So for me – but again, from the board point of view, we don't make a difference from a buyback and return policy point of view, 8%, 10% 12%, et cetera. I think we are – the balance sheet is strong enough to maintain that policy – more than 40%, it is what is driving us. More than 40% that…

Jason Gabelman

Gearing level.

Patrick Pouyanné

It's more than 40% payout. That's the objective.

Jason Gabelman

Okay. Thanks.

Patrick Pouyanné

Yes. No, just – I have the answer to your OpEx question more precisely. My team wrote me on the paper, but in fact, it's linked to some seasonal. We have some turnaround, I think, in the UK. and Denmark, we have some more work programs of seasonal effect in the North Sea generally in the second quarter. That's the reason why. But no, honestly, there is no – don't see inflation, we'll be able to deliver less than $5 per barrel in OpEx between today and I can even commit that we maintain this OpEx of $5 per barrel until the end of the decade, it's deeply rooted in the portfolio and in the projects in which we invest.

Jason Gabelman

Great. Thanks.

Operator

This was the last question. Back to you for any closing remarks you may have.

Patrick Pouyanné

Thank you again. I think, again, this quarter, I think we have delivered our road map for the year. as I insisted, we have made a lot of progress on our, I would say, on our strategy and the execution of our growth from 2023 to 2028, and we'll be able to demonstrate to you how the portfolio is growing, but also its resilient to the volatility both – it's fundamentally to drive the strategy to the volatility of LNG of inflation of costs, et cetera.

Subscribe to Seeking Alpha for more content like this

And so I wish as we'll all meet you on October 2 in New York in the morning, so that we should have some good discussions and presentations. So thank you. I wish you to all good holidays and happy to meet you in New York.

**Load-Date:** July 25, 2024

**End of Document**